Michigan Deptartment of Treasury

Local Government Type City Townsh	ip Village Other	ocal Government Name //LLAGE OF NORTH BRANCH	County	
Audit Date 2/28/05	Opinion Date 4/8/05	Date Accountant Report Submitted to State 5/18/05		
accordance with the	Statements of the Gover	cal unit of government and rendered an opin ental Accounting Standards Board (GASB) of f Government in Michigan by the Michigan Dep	and the Uniform	Reporting Format for
We affirm that:				
1. We have complied	with the Bulletin for the A	s of Local Units of Government in Michigan as	revised.	
2. We are certified pu	iblic accountants registere	practice in Michigan.		
We further affirm the fo		e been disclosed in the financial statements, i	ncluding the notes	, or in the report of
You must check the ap	plicable box for each item	ow.		
Yes No 1	Certain component unit	nds/agencies of the local unit are excluded fro	m the financial sta	atements.
Yes √ No 2	There are accumulated 275 of 1980).	icits in one or more of this unit's unreserved	fund balances/re	tained earnings (P.A
Yes ✓ No 3.	There are instances of amended).	n-compliance with the Uniform Accounting a	and Budgeting Act	(P.A. 2 of 1968, as
Yes ✓ No 4.		the conditions of either an order issued usual under the Emergency Municipal Loan Ad		al Finance Act or its
Yes ✓ No 5.		its/investments which do not comply with sta or P.A. 55 of 1982, as amended [MCL 38.113		its. (P.A. 20 of 1943
Yes ✓ No 6.	The local unit has been	nquent in distributing tax revenues that were o	collected for anothe	er taxing unit.
Yes No 7.	pension benefits (norm	the Constitutional requirement (Article 9, Septiments) in the current year. If the plan is more sormal cost requirement, no contributions are d	than 100% funded	and the overfunding
Yes ✓ No 8.	The local unit uses cre (MCL 129.241).	cards and has not adopted an applicable p	olicy as required	by P.A. 266 of 199
Yes V No 9	The local unit has not a	ed an investment policy as required by P.A. 1	96 of 1997 (MCL 1	129.95).
We have enclosed th	e following:	Enclo	To Be	
The letter of comment	s and recommendations.	✓	/	
Reports on individual t	ederal financial assistanc	ograms (program audits).		✓
Single Audit Reports (ASLGU).			✓
Certified Public Accountant				
Street Address 60 HARROW LAN		City	State MI	ZIP. 48603

Accountant Signature

Lapeer County, Michigan

FINANCIAL STATEMENTS

February 28, 2005



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INDEPENDENT AUDITORS' REPORT

To the Village Council Village of North Branch, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of North Branch, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of North Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of North Branch as of February 28, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of North Branch's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

As described in Note 14, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of March 1, 2004.

April 8, 2005

Berthiaume & Co.



STATEMENT OF NET ASSETS

February 28, 2005

	Primary Government							
	Go	vernmental	Bu	siness-type			Co	mponent
	<u> </u>	Activities	Activities		Total		Un	it - DDA
Assets:								
Cash and cash equivalents	\$	652,263	\$	686,115	\$	1,338,378	\$	124,373
Receivables		126,016		72,175		198,191		31,288
Internal balances		17,855		(17,855)		-		-
Prepaid items and other assets		3,208		434,973		438,181		-
Restricted cash and cash equivalents		-		100,001		100,001		-
Capital assets:								
Nondepreciable capital assets		68,320		68,783		137,103		17,500
Depreciable capital assets, net		500,309		2,311,144		2,811,453		-
Total assets		1,367,971		3,655,336	_	5,023,307		173,161
Liabilities:								
Accounts payable and accrued expenses		9,412		21,619		31,031		-
Long-term liabilities:								
Due within one year		-		65,000		65,000		-
Due in more than one year		2,766		1,549,592		1,552,358		-
Total liabilities		12,178		1,636,211	_	1,648,389		
Net assets:								
Invested in capital assets, net of related debt		568,629		765,335		1,333,964		17,500
Restricted for:								
Debt service		-		100,001		100,001		-
Streets		439,391		-		439,391		-
Unrestricted		347,773	_	1,153,789		1,501,562		155,661
Total net assets	\$	1,355,793	\$	2,019,125	\$	3,374,918	\$	173,161

STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

	Expenses		Charges for Services		Gr	perating cants and atributions	,	Expense) evenue
Functions/Programs PRIMARY GOVERNMENT: Governmental activities: General government Public safety Public works Community and economic development	\$	126,029 191,393 260,402 1,204	\$	9,119 - 70,315 1,260	\$	25,212 86,410	((116,910) 166,181) (103,677) 56
Recreation and culture		5,577		-		168		(5,409)
Total governmental activities		584,605		80,694		111,790	(392,121)
Business-type activities: Sewer Water Total business-type activities		86,804 164,465 251,269		83,221 154,189 237,410		- - -	_	(3,583) (10,276) (13,859)
Total primary government	\$	835,874	\$	318,104	\$	111,790	\$ (405,980)
COMPONENT UNIT: Downtown development authority	<u>\$</u>	13,843	\$		\$	31,513	\$	17,670
Total component unit	\$	13,843	\$		\$	31,513	\$	17,670

continued

	Governmenta Activities	Business- l type Activities	Total	Component Unit - DDA
Changes in net assets	Φ (202.12)	(12.050)	φ (40 5 000)	0 17 (70
Net (Expense) Revenue	\$ (392,12)	1) \$ (13,859)	\$ (405,980)	\$ 17,670
General revenues:				
Taxes:				
Property taxes, levied for general purpose	165,929	-	165,929	64,587
Property taxes, levied for municipal streets	66,138	-	66,138	-
Franchise taxes	2,698	-	2,698	-
Grants and contributions not restricted to				
specific programs	111,107	7 -	111,107	-
Unrestricted investment earnings	14,804	12,884	27,688	405
Miscellaneous	1,173	-	1,173	-
Transfers	2,000	51,885	53,885	(53,885)
Total general revenues, contributions,				
special items and transfers	363,849	64,769	428,618	11,107
Change in net assets	(28,272	2) 50,910	22,638	28,777
Net assets, beginning of year	1,384,065	1,968,215	3,352,280	144,384
Net assets, end of year	\$ 1,355,793	\$ 2,019,125	\$ 3,374,918	\$ 173,161

GOVERNMENTAL FUNDS

BALANCE SHEET

February 28, 2005

	(General Fund		Major Street Fund		Local Street Fund	M	lunicipal Street Fund		lonmajor vernmental Funds	Go	Total vernmental Funds
Assets:												
Cash and cash equivalents	\$	204,623	\$	174,713	\$	68,930	\$	173,511	\$	30,486	\$	652,263
Taxes receivable		22,427		-		-		8,970		-		31,397
Accounts receivable		32,509		-		-		-		15,128		47,637
Due from other governmental units		33,715		9,940		3,327		-		-		46,982
Due from other funds		20,215		-		20,000		-		-		40,215
Prepaid expenditures	_	3,208		-						-	_	3,208
Total assets	\$	316,697	\$	184,653	\$	92,257	\$	182,481	\$	45,614	\$	821,702
Liabilities and Fund Balances: Liabilities: Accounts payable												
and accrued expenses	\$	6.912	\$	_	\$	_	\$	_	\$	_	\$	6,912
Due to other funds	-	-	-	_	_	20,000	-	_	_	2,360	Ψ	22,360
Deposits payable		2,500								<u>-</u>		2,500
Total liabilities		9,412				20,000				2,360	_	31,772
Fund balances:												
Reserved for:												
Prepaid expenditures		3,208		-		-		-		-		3,208
Unreserved:												
General fund		304,077		-		-		-		-		304,077
Special revenue funds	_			184,653		92,257		182,481		43,254		482,645
Total fund balances		307,285		184,653		92,257		182,481		43,254		789,930
Total liabilities and fund balances	\$	316,697	\$	184,653	\$	92,257	\$	182,481	\$	45,614	\$	821,702

Net assets of governmental activities

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 28, 2005

Total fund balances for governmental funds	\$	789,930
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets 896,200	О	
Less accumulated depreciation (327,57)	<u>1</u>)	568,629
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Compensated absences payable		(2,766)

\$ 1,355,793

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2005

	_	General Fund		Major Street Fund	Local Street Fund		Street Str		icipal Nonmajor reet Governmental und Funds		Goi	Total vernmental Funds
Revenues:												
Taxes	\$	165,929	\$	-	\$	-	\$	66,138	\$	-	\$	232,067
Licenses and permits		4,088		-		-		-		-		4,088
State grants		113,400		63,740		22,671		-		-		199,811
Contributions from other units		22,920		-		-		-		-		22,920
Charges from services		27,669		-		-		-		50,715		78,384
Fines and forfeits		920		-		-		-		-		920
Interest and rents		52,718		3,188		1,293		3,015		502		60,716
Other revenue		1,173			_			-		168		1,341
Total revenues		388,817		66,928		23,964		69,153		51,385	_	600,247
Expenditures:												
Current:												
General government		123,156		-		-		-		-		123,156
Public safety		170,350		-		-		-		-		170,350
Public works		109,263		48,186		42,419		16,322		53,240		269,430
Community and economic development		1,204		-		-		-		-		1,204
Recreation and culture		2,791		-		-		-		1,869		4,660
Other		22,933		-		-		-		-		22,933
Capital outlay	_	10,330	_	-	_			-				10,330
Total expenditures		440,027	_	48,186	-	42,419	_	16,322		55,109		602,063
Excess (deficiency) of												
revenues over expenditures		(51,210)	_	18,742		(18,455)		52,831		(3,724)		(1,816)
Other financing sources (uses) Transfers in		-		-		20,000		1,897		2,341		24,238
Transfers out		(341)		(1,897)		-		(20,000)		-		(22,238)
Total other financing sources (uses)		(341)	_	(1,897)	_	20,000		(18,103)	_	2,341	_	2,000
Net change in fund balances		(51,551)		16,845		1,545		34,728		(1,383)		184
Fund balances, beginning of year, as restated		358,836		167,808	_	90,712	_	127,753	_	44,637		789,746
Fund balances, end of year	\$	307,285	\$	184,653	\$	92,257	\$	162,481	\$	43,254	\$	789,930

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

Net change in fund balances - total governmental funds		\$ 184
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay Less depreciation expense	14,415 (41,950)	(27,535)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable		 (921)
Change in net assets of governmental activities		\$ (28,272)

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

February 28, 2005

	Major Enterprise Funds						
	Sewer Fund			Water Fund		Total	
Assets:							
Current assets:							
Cash and cash equivalents	\$	88,683	\$	597,432	\$	686,115	
Accounts receivable		27,927		44,248		72,175	
Total current assets		116,610		641,680		758,290	
Noncurrent assets:							
Restricted cash and cash equivalents		-		100,001		100,001	
Capital assets:							
Nondepreciable capital assets		7,200		61,583		68,783	
Depreciable capital assets, net		323,507		1,987,637		2,311,144	
Land held for development - Industrial Park				434,973		434,973	
Total noncurrent assets	_	330,707		2,584,194		2,914,901	
Total assets		447,317		3,225,874		3,673,191	
Liabilities: Current liabilities:							
Accounts payable and accrued expenses		-		21,619		21,619	
Due to other funds		-		17,855		17,855	
Current portion of long-term debt				65,000		65,000	
Total current liabilities				104,474		104,474	
Noncurrent liabilities:							
Long-term debt			_	1,549,592		1,549,592	
Total noncurrent liabilities			_	1,549,592		1,549,592	
Total liabilities			_	1,654,066	_	1,654,066	
Net assets:							
Invested in capital assets, net of related debt		330,707		434,628		765,335	
Restricted for:							
Debt service		-		100,001		100,001	
Unrestricted	_	116,610		1,037,179		1,153,789	
Total net assets	\$	447,317	\$	1,571,808	\$	2,019,125	

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Year Ended February 28, 2005

	 Major Enterprise Funds					
	 Sewer Fund	Water Fund			Total	
Operating revenues:	 					
Charges for services	\$ 78,869	\$	147,414	\$	226,283	
Penalties	1,352		2,500		3,852	
Other	 3,000		4,275		7,275	
Total operating revenues	 83,221	_	154,189		237,410	
Operating expenses:						
Personnel	26,361		19,906		46,267	
Fringe benefits	10,487		7,814		18,301	
Supplies	11,011		4,016		15,027	
Contracted services	7,878		1,801		9,679	
Administrative expense	4,300		6,200		10,500	
Education and training	530		475		1,005	
Printing and publishing Utilities	373		132		505	
	1,563 30		8,009 821		9,572 851	
Repair and maintenance Equipment rental	9,155		10,340		19,495	
Other services and supplies	174		130		304	
Depreciation	14,942		44,737		59,679	
Total operating expenses	86,804	_	104,381		191,185	
Operating income (loss)	(3,583)		49,808		46,225	
Non-operating revenues (expenses):						
Interest income	1,600		11,284		12,884	
Interest expense	 _		(60,084)		(60,084)	
Total non-operating revenues (expenses)	 1,600		(48,800)		(47,200)	
Net income (loss) before operating transfers	 (1,983)		1,008		(975)	
Operating transfers:						
Transfer from Downtown Development Authority	_		51,885		51,885	
				_		
Total operating transfers	 		51,885		51,885	
Net income (loss)	 (1,983)		52,893		50,910	
Net assets, beginning of year, as restated	 449,300		1,518,915		1,968,215	
Net assets, end of year	\$ 447,317	\$	1,571,808	\$	2,019,125	

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended February 28, 2005

	Major Enterprise Funds				
	Sewer <u>Fund</u>	Water Fund	Total		
Cash flows from operating activities: Cash received from customers Cash payments to employees Cash payments to suppliers for goods and services	\$ 75,962 (26,361) (45,501)	\$ 149,987 (19,906) (40,119)	\$ 225,949 (46,267) (85,620)		
Net cash provided (used) by operating activities	4,100	89,962	94,062		
Cash flows from non-capital financing activities: Operating transfers in Net cash provided (used) by non-capital	<u> </u>	51,885	51,885		
financing activities		51,885	51,885		
Cash flows from capital and related financing activities: Acquisition and construction of capital assets Proceeds of bond issue Principal payments Interest paid	(28,754) - - -	(1,060) 1,060 (70,000) (60,084)	(29,814) 1,060 (70,000) (60,084)		
Net cash provided (used) by capital and related financing activities	(28,754)	(130,084)	(158,838)		
Cash flows from investing activities: Interest received	1,600	11,284	12,884		
Net cash provided (used) by investing activities	1,600	11,284	12,884		
Net increase (decrease) in cash and cash equivalents	(23,054)	23,047	(7)		
Cash and cash equivalents, beginning of year	111,737	674,386	786,123		
Cash and cash equivalents, end of year	\$ 88,683	\$ 697,433	\$ 786,116		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (3,583)	\$ 49,808	\$ 46,225		
Adjustments: Depreciation Changes in assets and liabilities:	14,942	44,737	59,679		
Accounts receivable Accounts payable and accrued expenses	(7,259)	(4,202) (381)	(11,461) (381)		
Net cash provided (used) by operating activities	\$ 4,100	\$ 89,962	\$ 94,062		

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

February 28, 2005

	Agency Funds
Assets:	d 20 (21
Cash and cash equivalents	\$ 30,631
Total assets	30,631
Liabilities: Accounts payable and accrued expenses	30,631
Total liabilities	30,631
Net Assets: Unrestricted	<u>\$ -</u>



NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of North Branch conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the Village's reporting entity because of their operational or financial relationship with the Village.

Discretely Presented Component Units - The component unit column in the government-wide financial statements includes the financial data of the Village's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The component unit is described as follows:

Downtown Development Authority - The members of the governing board of the Downtown Development Authority (DDA) are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete separate financial statements of the Downtown Development Authority are not prepared.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to accounted for in another fund.

The **Major Street Fund** is used to account for the maintenance and construction of the Village's major street system.

The **Local Street Fund** is used to account for the maintenance and construction of the Village's local street system.

The **Municipal Street Fund** is used to account for the maintenance and construction of the Village's municipal street system.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

The Village reports the following major enterprise funds:

The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.

The **Water Fund** is used to account for the revenues and expenses for the operation of a water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

<u>Deposits and Investments</u> – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

<u>Interfund Receivables and Payables</u> – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

<u>Inventories and Prepaid Items</u> – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

<u>Capital Assets</u> – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	15 years
Machinery and equipment	5-30 years
Vehicles	8 years
Distribution systems	25-50 years
Infrastructure	25 years

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

<u>Compensated Absences</u> – It is the Village's policy to permit employees to accumulate earned but unused sick days once they have attained ten years of service. Employees who terminate employment with the Village and have at least ten years of service will receive a payout of ½ the amount of unused sick days at the time of termination. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

<u>Long-term Obligations</u> – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

<u>Fund Equity</u> – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes:

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14.

The 2004 taxable valuation of the Village totaled \$18,507,517, on which ad valorem taxes levied consisted of 10.6423 mills for the Village's operating purposes and 4.2568 mills for municipal streets.

The delinquent real property taxes of the Village are purchased by Lapeer County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. The Village Treasurer submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to March 1, the budget is legally enacted by adoption of the Village Council.
- 4. Any revision that alters the total expenditures of any fund must be approved by the Village.
- 5. Formal budgetary integration is employed as a management control device during the year for all funds.
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village did not incur expenditures that were materially in excess of the amounts budgeted.

NOTE 3: DEPOSITS AND INVESTMENTS

The Village's deposits and investments at February 28, 2005 are included in the statement of net assets under the following categories:

	vernmental <u>Activities</u>	Business-type <u>Activities</u>		Total Primary <u>Government</u>		Component <u>Unit - DDA</u>	
Cash and cash equivalents Restricted cash and cash equivalents	\$ 652,263	\$	686,115 100,001	\$	1,338,378 100,001	\$	124,373
•	\$ 652,263	\$	786,116	\$	1,438,379	\$	124,373

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Deposits:

The breakdown between deposits and investments for the Village is as follows:

	Primary <u>Government</u>	Component <u>Unit - DDA</u>			
Bank deposits (checking accounts, savings accounts, and certificates of deposit Petty cash and cash on hand	\$ 1,438,129 250	\$ 124,373			
Total	\$ 1,438,379	\$ 124,373			

The deposits of the primary government and component unit were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,605,534, of which \$400,000 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The Village believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments:

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

Investments are categorized into these three categories of credit risk:

- Category 1 Insured or registered, or securities held by the Village or its agent in the Village's name;
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end, the Village had no investments.

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

Water Fund Reserves:

The Village's ordinances authorizing issuance of the 2002 Water Supply System Revenue Bonds require that specific accounts be established and monies deposited as follows:

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Receiving Account – All water receipts are initially deposited into this account.

Operation and Maintenance Account – Periodic transfers are to be made to cover upcoming administrative, operating, and maintenance expenses.

Bond and Interest Redemption Account – Monthly transfers are to be made equal to one sixth (1/6) of the next interest payment due plus one twelfth (1/12) of the next principal payment due.

At February 28, 2005 the Village had these accounts established and had restricted cash as follows:

					A	Amount	
			i	Funded			
	ginning alance	· ·		Ending <u>Balance</u>	Casi	Restricted Cash and Cash <u>Equivalents</u>	
Water Fund: Bond and Interest Redemption	\$ 32,732	\$	(2,581)	30,151	\$	100,001	

NOTE 5: CAPITAL ASSETS

Primary Government and Component Unit capital asset activity for the year ended February 28, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 66,808	\$ -	\$ -	\$ 66,808
Construction in progress		1,512		1,512
	66,808	1,512		68,320
Depreciable capital assets:				
Buildings and improvements	121,770	-	-	121,770
Machinery and equipment	602,470	11,492	-	613,962
Vehicles	90,737	-	-	90,737
Infrastructure		1,411		1,411
	814,977	12,903	-	827,880
Total capital assets	881,785	14,415		896,200
Accumulated depreciation	(285,621)	(41,950)		(327,571)
Depreciable capital assets, net	529,356	(29,047)		500,309
Governmental activities, capital				
assets, net	\$ 596,164	\$ (27,535)	\$ -	\$ 568,629

NOTES TO FINANCIAL STATEMENTS, CONTINUED February 28, 2005

	Beginning Balance Addition		Retirements	Ending Balance
Business-type activities:				
Nondepreciable capital assets:				
Land	\$ 68,783	\$ -	\$ -	\$ 68,783
Depreciable capital assets				
Land improvements	12,753	-	-	12,753
Machinery and equipment	37,853	28,754	-	66,607
Sewer system	2,794,623	1,060		2,795,683
	2,845,229	29,814		2,875,043
Total capital assets	2,914,012	29,814		2,943,826
Accumulated depreciation	(504,220)	(59,679)		(563,899)
Depreciable capital assets, net	2,341,009	(29,865)		2,311,144
Business-type activities, capital assets, net	\$ 2,409,792	\$ (29,865)	\$ -	\$ 2,379,927
Component unit - DDA:				
Nondepreciable capital assets:				
Land	\$ -	\$ 17,500	\$ -	\$ 17,500
Component unit, capital assets, net	\$ -	\$ 17,500	\$ -	\$ 17,500

Depreciation expense was charged to functions as follows:

Total business-type activities

Governmental activities:		
General government	\$	562
Public safety		7,319
Public works		32,669
Recreation and culture		1,400
Total governmental activities	<u>\$</u>	41,950
Business-type activities:		
Sewer	\$	14,942
Water		44,737

59,679

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

NOTE 6: LAND HELD FOR DEVELOPMENT – INDUSTRIAL PARK

The account shown in the Water Fund with a balance of \$434,973 represents the Water Fund's balance of costs invested in improvements to a Village Industrial Park. These improvements are not being depreciated because the lots are being held for sale. Future proceeds from the sale of the Industrial Park lots will first be used to reduce this account balance to zero. Future Industrial Park lot sales in excess of the Water Fund's investment in the improvements will be recognized as revenue in the year of the sale.

There were no lot sales for the year ended February 28, 2005.

NOTE 7: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the Village had no deferred revenue.

NOTE 8: LONG-TERM LIABILITIES

The Village issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

Long-term liabilities at February 28, 2005 consisted of the following:

Types of Indebtedness	Maturity	Interest Rates	Annual Principal Installments	Original Issue <u>Amount</u>	Outstanding at Year-End
Business-type Activities:					
Revenue Bonds:					
1995 Issue - Water System GO Bonds					
Serial Current Interest Bonds	11/1/04-11/1/19	5.15-6.1%	\$20,000-50,000	\$ 660,000	\$ 520,000
2002 Issue - Water System Revenue					
Serial Current Interest Bonds	10/1/04-10/1/23	2.5%	45,000-74,592	1,144,592	1,094,592

NOTES TO FINANCIAL STATEMENTS, CONTINUED February 28, 2005

The following is a summary of long-term liabilities transactions for the year ended February 28, 2005:

	 Beginning Balance	A	dditions	Re	tirements	Ending Balance		o .	
Governmental activities:									
Compensated Absences	\$ 1,845	\$	921	\$	-	\$	2,766	\$	-
Total governmental activities									
- long-term liabilities	\$ 1,845	\$	921	\$		\$	2,766	\$	
Business-type activities:									
General Obligation Bonds:									
1995 Issue	\$ 540,000	\$	-	\$	(20,000)	\$	520,000	\$	20,000
Revenue Bonds:									
2002 Issue	 1,143,532		1,060		(50,000)		1,094,592		45,000
Total business-type activities									
- long-term liabilities	\$ 1,683,532	\$	1,060	\$	(70,000)	\$	1,614,592	\$	65,000

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended	Business-type Activities						
February 28,		Principal	_	Interest	_	Total	
2006	\$	65,000	\$	58,018	\$	123,018	
2007		65,000		55,855		120,855	
2008		70,000		53,669		123,669	
2009		70,000		51,195		121,195	
2010		75,000		48,682		123,682	
2011-2015		450,000		197,580		647,580	
2016-2020		540,000		102,125		642,125	
2021-2024		279,592		17,832		297,424	
	\$	1,614,592	\$	584,956	\$	2,199,548	

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	Governmental Activities			Business-type Activities		
Receivables:						
Taxes	\$	31,397	\$	-		
Accounts		47,637		72,175		
Intergovernmental		46,982				
Total receivables	\$	126,016	\$	72,175		
Accounts payable and accrued expenses:						
Accounts	\$	6,912	\$	-		
Deposits payable		2,500		-		
Interest				21,619		
Total accounts payable and accrued expenses	\$	9,412	\$	21,619		

NOTE 10: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 28, 2005 is as follows:

Receivable Fund	Payable Fund	 Amount		
General Fund	Garbage Fund	\$ 2,360		
General Fund	Water Fund	 17,855		
		\$ 20,215		

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Interfund transfers reported in the fund statements were as follows:

Funds Transferred From	Funds Transferred To	<u>A</u>	mount
Major Street Fund	Municipal Street Fund	\$	1,897
General Fund	Museum Fund		341
Downtown Development Authority	Museum Fund		2,000
Downtown Development Authority	Water Fund	_	51,885
	Total	\$	56,123

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The Village participates in the Michigan Municipal Liability and Property Pool (the "Pool") for workers' compensation and property risk. The Pool is a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium for its insurance coverage. The Pool is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies.

Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 12: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Contribution Pension Plan

The Village has a defined contribution pension plan administered by ICMA Retirement Corporation. All full-time employees as well as the Clerk and Treasurer are covered under the plan. The Village contributes 5% of each covered employee's earnings to the plan. The Village's contribution for the year ended February 28, 2005 was \$12,847, which was entirely paid during the year.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Post Employment Benefits:

The Village currently does not provide post employment benefits.

Deferred Compensation Plan:

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The Village adopted GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The Village has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the Village's financial statements.

NOTE 13: FUND EQUITY

Specific reservations on fund equity include:

<u>Reserved for prepaid expenditures</u> – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

NOTE 14: PRIOR PERIOD ADJUSTMENTS

Change in Recognition of Sales Tax Revenue:

Recognition of state shared revenue payments of sales tax should agree with the State of Michigan's distribution periods. In prior years, the payment distributed in April for January/February collection period was recorded as revenue in the next year, or the year that it was received. In accordance with accounting principles generally accepted in the United States of America, this payment should be accrued to the prior year.

The effect of this adjustment on General Fund fund balance is as follows:

Fund balance, as previously stated, as of 2/29/04	\$ 346,283
Add: State shared revenue for sales tax that should have accrued to prior year	 12,553
Fund balance, restated, as of 2/29/04	\$ 358,836

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Change in Recognition of Utility Billings

In prior years, the quarter billing that included January, February and March was recognized as revenue in the year that the quarter was billed. For fiscal year ended February 28, 2005, the Village changed its recognition policy to accrue the portion of utility billings for January and February that were unbilled as of year end.

The effect on the beginning fund balance and net assets of the funds is as follows:

		ernmental Funds	Enterprise Funds					
	<u>Garbage</u>		<u>Sewer</u>	<u>Water</u>				
Fund balance/Net assets, beginning of year, as previously stated	\$	27,165	\$ 436,878	\$ 1,494,122				
Prior period adjustment to recognize January and February utility billings		8,159	 12,422	24,793				
Fund balance/Net assets, beginning of year, as restated	\$	35,324	\$ 449,300	\$ 1,518,915				

Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Village is required to implement the new requirements for the year ended February 28, 2005. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental and enterprise funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net asset accounts:

Fund Financial Statements:

The beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

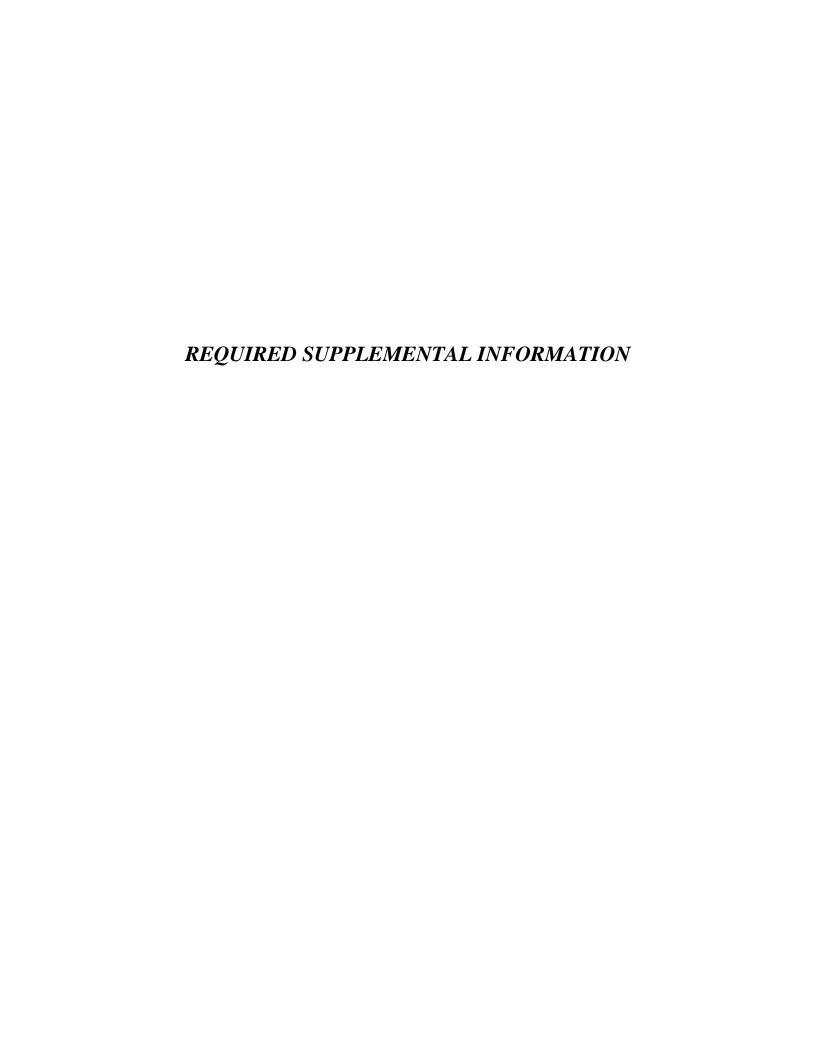
Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balances of general and special revenue funds as of 2/29/04, as restated				
Add: Governmental capital assets, including general fixed assets		881,785		
Deduct: Accumulated depreciation as of 2/29/04 on above governmental capital assets		(285,621)		
Deduct: Governmental compensated absences payable as of 2/29/04				
Governmental net assets, restated, as of 2/29/04	\$	1,384,065		

NOTE 15: CONTRACT WITH DDA FOR WATER BOND PAYMENTS

The Village and the Village Downtown Development Authority entered into an agreement March 20, 2003 that states that the DDA shall pay to, or reimburse, the Village each year for payments the Village makes to the County on the 1995 Water Revenue Bonds. In accordance with the agreement, for the year ended February 28, 2005, the DDA paid \$51,885 to the Village.



GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	Budgeted Amounts						Actual Over (Under)	
	Original Final			Final		Actual	Final Budget	
Revenues:								
Property taxes	\$	164,400	\$	164,053	\$	165,929	\$	1,876
Licenses and permits		3,500		3,500		4,088		588
State grants		118,770		120,114		113,400		(6,714)
Contributions from other units		-		4,238		22,920		18,682
Charges for services		23,600		23,600		27,669		4,069
Fines and forfeits		1,500		1,500		920		(580)
Interest and rents		53,350		55,440		52,718		(2,722)
Other revenue		1,500		1,500		1,173		(327)
Total revenues		366,620		373,945		388,817		14,872
Expenditures:								
Current								
General government		114,685		128,373		123,156		(5,217)
Public safety		175,752		169,380		170,350		970
Public works		90,645		108,653		109,263		610
Community and economic development		3,165		3,165		1,204		(1,961)
Recreation and culture		3,125		3,125		2,791		(334)
Other		22,625		22,933		22,933		-
Capital outlay		30,000		25,054		10,330		(14,724)
Total expenditures		439,997		460,683	_	440,027		(20,656)
Excess (deficiency) of								
revenues over expenditures		(73,377)	_	(86,738)		(51,210)		35,528
Other financing sources (uses):								
Transfers out		(1,895)		(1,895)		(341)		(1,554)
Total other financing sources (uses)		(1,895)		(1,895)		(341)		(1,554)
Net change in fund balance		(75,272)		(88,633)		(51,551)		37,082
Fund balance, beginning of year, as restated		358,836		358,836		358,836		
Fund balance, end of year	\$	283,564	\$	270,203	\$	307,285	\$	37,082

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	Budgeted Amounts						Ove	Actual r (Under)
	Original			Final		Actual	Final Budget	
Revenues:								
State grants	\$	45,000	\$	45,740	\$	63,740	\$	18,000
Interest and rents		645		645		3,188		2,543
Total revenues		45,645		46,385		66,928		20,543
Expenditures:								
Current								
Public works		72,645	_	73,385		48,186		(25,199)
Total expenditures		72,645	_	73,385		48,186		(25,199)
Excess (deficiency) of								
revenues over expenditures		(27,000)		(27,000)		18,742		45,742
Other financing sources (uses):								
Transfers out		_		_		(1,897)		1,897
Total other financing sources (uses)						(1,897)		1,897
Net change in fund balance		(27,000)		(27,000)		16,845		43,845
Fund balance, beginning of year		167,808		167,808		167,808		-
Fund balance, end of year	\$	140,808	\$	140,808	\$	184,653	\$	43,845

SPECIAL REVENUE FUND – LOCAL STREET FUND

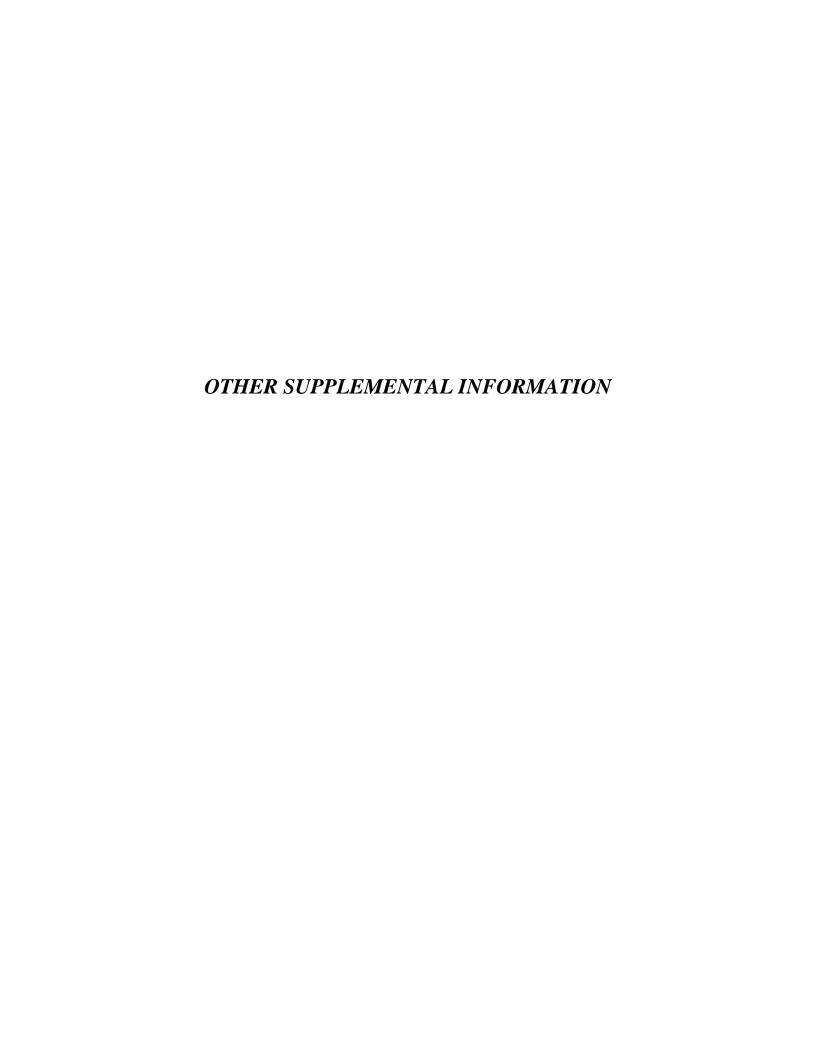
BUDGETARY COMPARISON SCHEDULE

	Budgeted riginal	Am	ounts Final	Actual	Over	ctual (Under) al Budget
Revenues:	 -3	_	1	 		z uger
State grants	\$ 16,481	\$	19,811	\$ 22,671	\$	2,860
Interest and rents	 500		500	 1,293		793
Total revenues	 16,981		20,311	 23,964		3,653
Expenditures:						
Current:						
Public works	 58,784		45,454	 42,419		(3,035)
Total expenditures	58,784		45,454	 42,419		(3,035)
Excess (deficiency) of						
revenues over expenditures	(41,803)		(25,143)	 (18,455)		6,688
Other financing sources:						
Transfers in	 20,000	_	20,000	 20,000		
Total other financing sources	 20,000		20,000	 20,000		
Net change in fund balance	(21,803)		(5,143)	1,545		6,688
Fund balance, beginning of year	 90,712		90,712	 90,712		_
Fund balance, end of year	\$ 68,909	\$	85,569	\$ 92,257	\$	6,688

SPECIAL REVENUE FUND – MUNICIPAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

		Budgeted	Am	ounts			Actual r (Under)
	0	Priginal		Final	 Actual	Final Budget	
Revenues:							
Property taxes	\$	60,500	\$	59,266	\$ 66,138	\$	6,872
Interest and rents			_	-	 3,015		3,015
Total revenues		60,500		59,266	 69,153		9,887
Expenditures: Current							
Public works		40,500		35,776	16,322		(19,454)
Total expenditures		40,500	_	39,266	 16,322		(19,454)
Excess (deficiency) of revenues over expenditures		20,000		23,490	 52,831		29,341
Other financing sources (uses):							
Transfers in		-		-	1,897		1,897
Transfers out		(20,000)		(20,000)	 (20,000)		
Total other financing sources (uses)		(20,000)		(20,000)	 (18,103)	_	1,897
Net change in fund balance		-		3,490	34,728		31,238
Fund balance, beginning of year		127,753		127,753	 127,753		
Fund balance, end of year	\$	127,753	\$	131,243	\$ 162,481	\$	31,238



GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Revenues: Current taxes:	
Property taxes	\$ 165,353
Trailer tax	356
Penalties and interest on taxes	220
	165,929
Licenses and permits:	
Business licenses and permits	130
Nonbusiness licenses and permits	1,260
CATV franchise fees	2,698
	4,088
State grants:	
Liquor license fees	949
State revenue sharing - sales tax	111,107
Police grant	1,344
	113,400
Contribution from other units:	
Reimbursement from school district - Cops in Schools	22,920
	22,920
Charges for services:	
Other	86
Charges to other funds	27,583
2	27,669
Fines and forfeitures:	
Other	920
	920
Interest and rents:	C 004
Interest Equipment routel	6,804 45,914
Equipment rental	
	52,718
Other revenue:	
Other	1,173
	1,173
Total revenues	\$ 388,817
1 Otal TOVETILES	φ 300,817

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Expenditures:	
General Government:	
Council:	h
Personnel	\$ 6,052
Fringe benefits	633
Supplies	302
Contracted services	12,000
Transportation	220
Registration, dues and training	307
Printing and publications	908
Other	4,531
	24,953
President:	
Personnel	4,759
Fringe benefits	364
	5,123
Clerk:	
Personnel	30,139
Fringe benefits	3,806
Supplies	1,797
Telephone	2,185
Transportation	197
Registration, dues and training	816
Repairs and maintenance	2,790
Other	3,609
	45,339
Audit:	
Contracted services	4 204
Contracted services	4,384
	4,384
Board of Review:	
Personnel	240
Fringe benefits	18
	258
Treasurer:	
Personnel	12,589
Fringe benefits	1,589
Supplies	269
Transportation	24
Printing and publications	95
	14,566
	17,500

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Expenditures, continued:	
General Government, continued:	
Elections:	.
Personnel	\$ 548
Fringe benefits	26
Supplies	149
Transportation	105
Registration, dues and training	50
Printing and publications	(318)
Other	35
	595
Buildings and Grounds:	
Personnel	2,393
Fringe benefits	574
Supplies	763
Utilities	4,329
Repairs and maintenance	2,901
	10,960
Attorney:	
Contracted services	16,978
Confidence sorvices	16,978
	10,978
Total general government	123,156
6 6	
Public Safety:	
Police:	
Personnel	128,671
Fringe benefits	27,729
Supplies	4,863
Telephone	1,624
Transportation	3,347
Registration, dues and training	1,091
Repairs & maintenance	1,621
Other	364
	169,310
Protective Inspection and Regulation:	
Contracted services	1,040
	1,040
	1,040
Total public safety	170,350

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Expenditures, continued: Public Works:	
Department of Public Works:	
Personnel	\$ 39,403
Fringe benefits	15,263
Supplies	14,573
Telephone	1,370
Travel/Mileage	4,862
Conference and travel	186
Utilities	4,186
Repairs and maintenance	5,472
Other	103
	85,418
Street Lighting:	
Utilities Utilities	23,845
oundes	23,845
Total public works	109,263
Community and Economic Development:	
Planning:	
Personnel	975
Fringe benefits	88
Transportation	16
Registration, dues and training	75
Printing and publications	50
8	1,204
Total community and economic development	1,204
Recreation and Culture:	
Parks and Recreation:	
Personnel	1,959
Fringe benefits	769
Supplies	19
Repairs and maintenance	44
	2,791
Total recreation and culture	2,791
Other:	
Insurance	22,933
	22,933

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Expenditures, continued:	
Capital Outlay:	
General government	\$ 9,582
Public safety	652
Public works	96
	10,330
Total expenditures	440,027
Other Financing Uses:	
Transfers to other funds	341
	341
Total expenditures and other financing uses	\$ 440,368

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

February 28, 2005

	Special Revenue Funds								
	Garbage Collection Fund			Museum Fund		Drug Enforcement Fund		Total Nonmajor Governmental Funds	
Assets:									
Cash and cash equivalents	\$	20,416	\$	8,969	\$	1,101	\$	30,486	
Accounts receivable		15,128				-		15,128	
Total assets	\$	35,544	\$	8,969	\$	1,101	\$	45,614	
Liabilities and Fund Balances Liabilities:									
Due to other funds	\$	2,360	\$	-	\$		\$	2,360	
Total liabilities		2,360				-		2,360	
Fund balances: Unreserved:									
Special revenue funds		33,184		8,969		1,101		43,254	
Total fund balances		33,184		8,969		1,101		43,254	
Total liabilities and fund balances	\$	35,544	\$	8,969	\$	1,101	\$	45,614	

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

		arbage ollection Fund	Museum Fund		Drug Enforcement Fund		Total Nonmajor Governmental Funds	
Revenues:								
Charges for services	\$	50,715	\$	-	\$	-	\$	50,715
Interest and rents		385		111		6		502
Other revenue			_	168				168
Total revenues		51,100		279		6		51,385
Expenditures:								
Current:								
Public works		53,240		-		-		53,240
Recreation and culture			_	1,869				1,869
Total expenditures		53,240		1,869				55,109
Excess (deficiency) of								
revenues over expenditures		(2,140)		(1,590)		6	_	(3,724)
Other financing sources:								
Transfers in				2,341				2,341
Total other financing sources				2,341				2,341
Net change in fund balance		(2,140)		751		6		(1,383)
Fund balance, beginning of year		35,324		8,218		1,095		44,637
Fund balance, end of year	\$	33,184	\$	8,969	\$	1,101	\$	43,254

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Payroll Withholding Fund				
Assets: Cash and cash equivalents	\$ 35,416	\$ 372,143	\$ 376,928	\$ 30,631
Liabilities: Accounts payable and accrued expenses	\$ 35,416	\$ 372,143	\$ 376,928	\$ 30,631

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2005

1995 Lapeer County Water System Bonds

Issue dated 4/1/95 in the amount of \$ 660,000

Less: Principal paid in prior years (120,000)

Principal paid in current year (20,000)

Balance payable at February 28, 2005 \$ 520,000

Balance payable as follows:

									Total
	Interest Due							4	Annual
Year Ended	<u>Rate</u>		<u>5/1</u>	<u>11/1</u>			<u>Principal</u>	Red	<u>quirement</u>
2006	5.200%	\$	15,328	\$	15,327	\$	20,000	\$	50,655
2007	5.300%		14,808		14,807		20,000		49,615
2008	5.400%		14,278		14,277		25,000		53,555
2009	5.550%		13,603		13,602		25,000		52,205
2010	5.70%		12,909		12,909		25,000		50,818
2011	5.80%		12,196		12,196		30,000		54,392
2012	5.90%		11,326		11,326		35,000		57,652
2013	6.00%		10,294		10,294		35,000		55,588
2014	6.00%		9,244		9,244		35,000		53,488
2015	6.00%		8,194		8,194		40,000		56,388
2016	6.05%		6,994		6,994		40,000		53,988
2017	6.05%		5,784		5,784		45,000		56,568
2018	6.10%		4,423		4,422		45,000		53,845
2019	6.10%		3,050		3,050		50,000		56,100
2020	6.10%		1,525		1,525		50,000		53,050
		\$	143,956	\$	143,951	\$	520,000	\$	807,907

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2005

Total

2002 Water Supply System Revenue Bonds

Issue dated 9/26/02 in the amount of \$ 1,144,592

Less: Principal paid in prior years

Principal paid in current year (50,000)

Balance payable at February 28, 2005 \$ 1,094,592

Balance payable as follows:

									1 otat	
	Interest Due								Annual	
Year Ended	<u>Rate</u>		<u>4/1</u> <u>10/1</u>		<u>4/1</u> <u>10/1</u>		j	<u>Principal</u>	Re	<u>quirement</u>
2006	2.500%	\$	13,681	\$	13,682	\$	45,000	\$	72,363	
2007	2.500%		13,120		13,120		45,000		71,240	
2008	2.500%		12,557		12,557		45,000		70,114	
2009	2.500%		11,995		11,995		45,000		68,990	
2010	2.500%		11,432		11,432		50,000		72,864	
2011	2.500%		10,807		10,807		50,000		71,614	
2012	2.500%		10,182		10,182		50,000		70,364	
2013	2.500%		9,557		9,557		55,000		74,114	
2014	2.500%		8,870		8,870		60,000		77,740	
2015	2.500%		8,120		8,120		60,000		76,240	
2016	2.500%		7,370		7,370		60,000		74,740	
2017	2.500%		6,620		6,620		60,000		73,240	
2018	2.500%		5,870		5,870		60,000		71,740	
2019	2.500%		5,120		5,120		65,000		75,240	
2020	2.500%		4,307		4,307		65,000		73,614	
2021	2.500%		3,495		3,495		65,000		71,990	
2022	2.500%		2,682		2,682		70,000		75,364	
2023	2.500%		1,807		1,807		70,000		73,614	
2024	2.500%		932		932		74,592		76,456	
		\$	148,524	\$	148,525	\$	1,094,592	\$	1,391,641	



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MANAGEMENT LETTER

To the Village Council Village of North Branch, Michigan

We have completed our audit of the financial statements of the Village of North Branch for the year ended February 28, 2005, and have issued our report thereon dated April 8, 2005. As part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Village's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Village's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and those transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village of North Branch taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the Village management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Company Certified Public Accountants

Bethrauml & B.

April 8, 2005